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FISCAL IMPACT STATEMENT

LS 6290

BILL NUMBER: HB 1184

NOTE PREPARED: Feb 24, 2005

BILL AMENDED: Feb 24, 2005

SUBJECT: Common Construction Wage.

FIRST AUTHOR: Rep. Leonard

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill requires that notice of a meeting of a committee to determine the common construction wage must be published on the Internet. It increases to \$300,000 the base amount under which a common construction wage need not be determined for 2006. The bill provides for inflating the base amount for each year after 2006.

Effective Date: July 1, 2005.

Explanation of State Expenditures: (Revised) The impact on the state would be in the funding of construction projects. In FY 2004 the Division of Public Works of the Department of Administration reviewed 230 public works projects valued at about \$35 M. Of the 230 projects, 187 were under \$150,000 and about 16 were between \$150,000 and \$300,000.

The influence of these changes is expected to vary by project, however, a number of studies suggest that wage determination provisions generally increase the labor cost of public works projects from 5% to 16%. Under this assumption, the saving to the state could be about \$1.07 M based on the number of projects in FY 2004.

However, other studies argue for prevailing wage-type systems on the grounds that they lead to greater efficiency, quality, and safety by providing for a stable, well-trained labor force (benefits typically associated with union labor). Under this assumption, the bill could cost the state in the long run, although the additional costs are unknown. Unfortunately, data limitations and questionable methodology limit the conclusiveness of many studies on prevailing wage laws.

Secondary impact: If, as some studies have shown, common wage requirements increase the costs of labor to the state, then lower wages may have the following effects:

- State income tax collections could decrease (assuming no decrease in employment levels), reducing consumption and further decreasing sales tax revenue;
- Debt incurred to finance projects could decrease due to lower project costs, requiring reduced bonding or property taxes; and
- Funds that may have been used for the project could be available for other public works projects. Similarly, capital expenses could be less, making more funding available for noncapital expenses in project budgets.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: All.

Local Agencies Affected: All.

Information Sources: Tom Coulter, Department of Administration 232-3021.

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